

KINGSLEY HOUSE, INC.
AND AFFILIATES
COMBINED FINANCIAL STATEMENTS

June 30, 2020 and 2019



Educates children, strengthens families and builds community

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JON S. FOLSE
LISA D. ENGLADE
KERNEY F. CRAFT, JR.



JONATHAN P. KOENIG
JOHN D. WHITE
VALERIE L. LOWRY

WEGMANN DAZET & COMPANY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kingsley House, Inc. and Affiliates
New Orleans, Louisiana

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Kingsley House, Inc. and Affiliates (a nonprofit organization), which comprise the combined statements of financial position as of June 30, 2020 and 2019, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Kingsley House, Inc. and Affiliates as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the accompanying Summary of Compensation, Benefits and Other Payments to Agency Heads are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2020, on our consideration of Kingsley House, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kingsley House, Inc. and Affiliate's internal control over financial reporting and compliance.

December 29, 2020

Wegmann Bazet

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	2020	2019
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,745,948	\$ -	\$ 2,745,948	\$ 1,194,485
Promises to give, net	18,761	829,440	848,201	1,122,880
Accounts receivable				
Government contracts	457,864	-	457,864	424,563
Other	473,625	275,000	748,625	397,937
Investments	1,154,945	-	1,154,945	1,180,034
Prepaid expenses	388,750	-	388,750	285,831
Total current assets	<u>5,239,893</u>	<u>1,104,440</u>	<u>6,344,333</u>	<u>4,605,730</u>
Cash held for acquisition of property and donor restricted purposes	85,090	-	85,090	131,230
Long-term investments	-	345,071	345,071	343,438
Notes receivable	5,348,000	-	5,348,000	5,348,000
Property and equipment, net	<u>13,068,176</u>	<u>-</u>	<u>13,068,176</u>	<u>13,666,976</u>
Total assets	<u>\$ 23,741,159</u>	<u>\$ 1,449,511</u>	<u>\$ 25,190,670</u>	<u>\$ 24,095,374</u>
LIABILITIES				
Current liabilities				
Line of credit	\$ -	\$ -	\$ -	\$ 345,262
Accounts payable and accrued liabilities	629,370	-	629,370	994,999
Accrued payroll and related liabilities	431,073	-	431,073	356,423
Deferred revenue	541,610	-	541,610	157,036
Current portion of long-term debt	149,200	-	149,200	147,613
Total current liabilities	<u>1,751,253</u>	<u>-</u>	<u>1,751,253</u>	<u>2,001,333</u>
Long-term debt, less current portion	<u>9,182,851</u>	<u>-</u>	<u>9,182,851</u>	<u>9,330,392</u>
Total liabilities	<u>10,934,104</u>	<u>-</u>	<u>10,934,104</u>	<u>11,331,725</u>
NET ASSETS				
Without donor restrictions				
Undesignated	10,993,562	-	10,993,562	9,677,415
Designated by the Board	1,813,493	-	1,813,493	1,803,490
With donor restrictions				
Perpetual in nature	-	345,071	345,071	343,438
Purpose restrictions	-	1,104,440	1,104,440	939,306
Total net assets	<u>12,807,055</u>	<u>1,449,511</u>	<u>14,256,566</u>	<u>12,763,649</u>
Total liabilities and net assets	<u>\$ 23,741,159</u>	<u>\$ 1,449,511</u>	<u>\$ 25,190,670</u>	<u>\$ 24,095,374</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Governmental contracts	\$ 12,181,136	\$ -	\$ 12,181,136
Contributions	602,187	-	602,187
Donated assets and services	1,463,466	-	1,463,466
Conditional grant	-	1,739,400	1,739,400
Foundation and corporate contracts	938,911	425,000	1,363,911
Fundraising	183,559	-	183,559
Investment (loss) income	(7,864)	5,573	(2,291)
Program fees	85,907	-	85,907
United Way funding	55,537	97,983	153,520
Other income	547,154	-	547,154
Net assets released from restrictions			
United Way	102,532	(102,532)	-
Release from restrictions - conditional grant	1,739,400	(1,739,400)	-
Restrictions satisfied by payments	259,257	(259,257)	-
Total revenues	18,151,182	166,767	18,317,949
Expenses			
Program services			
Head Start	4,941,364	-	4,941,364
Youth Program	156,094	-	156,094
Adult Day Health Care	765,353	-	765,353
Whole Family	204,035	-	204,035
Early Head Start	7,806,234	-	7,806,234
Community and Supportive Services	214,953	-	214,953
Participant Meal Program	448,626	-	448,626
Supporting services			
General and administrative	2,032,578	-	2,032,578
Fundraising	255,795	-	255,795
Total expenses	16,825,032	-	16,825,032
Change in net assets	1,326,150	166,767	1,492,917
Net assets			
Beginning of year	11,480,905	1,282,744	12,763,649
End of year	<u>\$ 12,807,055</u>	<u>\$ 1,449,511</u>	<u>\$ 14,256,566</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Governmental contracts	\$ 12,069,386	\$ -	\$ 12,069,386
Foundation and corporate contracts	790,575	-	790,575
United Way funding for next year	-	102,532	102,532
Contributions	554,993	896,774	1,451,767
Donated assets and services	1,630,185	-	1,630,185
Investment income	83,463	15,051	98,514
Program fees	102,391	-	102,391
Other income	464,220	-	464,220
Net assets released from restrictions			
United Way	136,406	(136,406)	-
Restrictions satisfied by payments	63,931	(63,931)	-
	Total revenues	814,020	16,709,570
Expenses			
Program services			
Head Start	4,841,641	-	4,841,641
Youth Program	165,674	-	165,674
Adult Day Health Care	806,527	-	806,527
Community Counseling Center	14,507	-	14,507
Early Head Start	7,266,767	-	7,266,767
Community and Supportive Services	197,137	-	197,137
Participant Meal Program	542,646	-	542,646
Supporting services			
General and administrative	2,035,629	-	2,035,629
Fundraising	350,569	-	350,569
	Total expenses	-	16,221,097
Change in net assets	(325,547)	814,020	488,473
Net assets			
Beginning of year	11,806,452	468,724	12,275,176
End of year	\$ 11,480,905	\$ 1,282,744	\$ 12,763,649

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	Program Services							Supporting Services			
	Head Start	Youth Program	Adult Day Health Care	Whole Family	Early Head Start	Community & Supportive Services	Participant Meal Program	Total Program Services	General and administrative	Fundraising	Total
Personnel	\$ 2,530,739	\$ 40,988	\$ 442,529	\$ 15,320	\$ 3,484,107	\$ 97,448	\$ 83,894	\$ 6,695,025	\$ 722,287	\$ 90,720	\$ 7,508,032
Employee benefits											
Health insurance	172,250	3,462	35,603	129	240,967	9,132	10,025	471,568	26,600	3,185	501,353
Retirement	57,818	(188)	9,983	-	94,991	3,153	2,316	168,103	25,468	2,448	196,019
Other	31,734	4,393	19,522	307	133,806	5,278	5,052	200,092	2,565	4,199	206,856
Payroll taxes	186,282	3,453	32,467	1,029	261,567	6,998	6,434	498,230	48,689	6,347	553,266
Total personnel and related expenses	<u>2,978,853</u>	<u>52,108</u>	<u>540,104</u>	<u>16,785</u>	<u>4,215,438</u>	<u>122,009</u>	<u>107,721</u>	<u>8,033,018</u>	<u>825,609</u>	<u>106,899</u>	<u>8,965,526</u>
Conferences, conventions, and meetings	17,641	107	1,760	-	37,679	1,184	617	58,988	10,239	1,022	70,249
Food	65,192	895	1,602	1,129	66,741	6,703	307,583	449,845	9,297	924	460,066
General insurance	2,343	128	1,582	-	3,139	24	-	7,216	997	175	8,388
Membership dues	4,136	12	24	15	8,822	7	11	13,027	8,904	366	22,297
Occupancy											
Utilities	88,080	16,512	21,384	-	95,231	2,654	933	224,794	71,465	3,190	299,449
Rent	322	-	-	-	32,430	-	-	32,752	-	-	32,752
Repairs and maintenance	137,418	22,264	33,560	-	162,608	4,730	1,843	362,423	97,002	5,007	464,432
Janitorial and housekeeping	256	14	97	-	343	3	6,610	7,323	109	19	7,451
Building insurance	47,816	7,679	15,509	-	74,885	4,680	-	150,569	34,899	3,483	188,951
Professional services	700,586	9,845	32,563	158,992	251,351	6,051	7,196	1,166,584	175,730	27,306	1,369,620
Program and office expense	761,052	13,050	58,775	15,970	2,688,005	31,761	15,948	3,584,561	230,943	29,577	3,845,081
Travel and transportation	19,927	2,389	25,049	11,144	59,497	1,109	164	119,279	6,869	930	127,078
Specific assistance to individuals	4,307	-	-	-	122	29,228	-	33,657	-	-	33,657
Field trips	1,469	3,579	-	-	-	-	-	5,048	-	-	5,048
Bad debt expense	-	-	15,362	-	-	3	-	15,365	5,195	-	20,560
Total expense before depreciation	<u>4,829,398</u>	<u>128,582</u>	<u>747,371</u>	<u>204,035</u>	<u>7,696,291</u>	<u>210,146</u>	<u>448,626</u>	<u>14,264,449</u>	<u>1,477,258</u>	<u>178,898</u>	<u>15,920,605</u>
Depreciation	111,966	27,512	17,982	-	109,943	4,807	-	272,210	555,320	76,897	904,427
Total expenses	<u>\$ 4,941,364</u>	<u>\$ 156,094</u>	<u>\$ 765,353</u>	<u>\$ 204,035</u>	<u>\$ 7,806,234</u>	<u>\$ 214,953</u>	<u>\$ 448,626</u>	<u>\$ 14,536,659</u>	<u>\$ 2,032,578</u>	<u>\$ 255,795</u>	<u>\$ 16,825,032</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Program Services							Supporting Services			
	Head Start	Youth Program	Adult Day Health Care	Community Counseling Center	Early Head Start	Community & Supportive Services	Participant Meal Program	Total Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 2,303,276	\$ 52,523	\$ 434,593	\$ 12,258	\$ 3,259,119	\$ 92,731	\$ 75,400	\$ 6,229,900	\$ 574,398	\$ 160,260	\$ 6,964,558
Employee benefits											
Health insurance	145,430	(2,634)	33,840	903	187,070	5,909	5,541	376,059	13,404	3,534	392,997
Retirement	58,321	(125)	13,023	-	92,829	2,877	662	167,587	13,442	4,660	185,689
Other	57,231	(35)	11,845	355	87,149	2,521	1,182	160,248	13,079	4,309	177,636
Payroll taxes	170,308	4,586	32,407	991	242,206	7,079	5,944	463,521	42,433	11,638	517,592
Total personnel and related expenses	<u>2,734,566</u>	<u>54,315</u>	<u>525,708</u>	<u>14,507</u>	<u>3,868,373</u>	<u>111,117</u>	<u>88,729</u>	<u>7,397,315</u>	<u>656,756</u>	<u>184,401</u>	<u>8,238,472</u>
Conferences, conventions, and meetings	39,710	70	1,698	-	88,520	4,545	375	134,918	14,787	2,504	152,209
Food	62,089	827	2,944	-	60,759	6,597	421,708	554,924	14,997	4,018	573,939
General insurance	1,919	2,612	255	-	4,136	163	-	9,085	-	-	9,085
Membership dues	1,839	16	33	-	4,218	10	14	6,130	20,560	1,161	27,851
Occupancy											
Utilities	102,213	19,275	21,880	-	87,706	3,243	727	235,044	82,912	3,709	321,665
Rent	-	-	-	-	37,729	-	-	37,729	-	-	37,729
Repairs and maintenance	132,057	25,447	29,792	-	122,274	5,262	6,814	321,646	132,207	4,582	458,435
Janitorial and housekeeping	777	217	476	-	722	120	-	2,312	597	27	2,936
Building insurance	94,581	5,616	12,136	-	89,291	2,983	5,212	209,819	17,829	3,614	231,262
Professional services	598,312	10,323	41,471	-	286,814	5,451	6,416	948,787	128,123	22,088	1,098,998
Program and office expense	882,959	16,464	102,513	-	2,482,047	32,029	12,537	3,528,549	239,156	42,917	3,810,622
Travel and transportation	34,491	379	33,535	-	85,749	3,091	114	157,359	13,655	2,989	174,003
Specific assistance to individuals	1,675	-	-	-	1,588	17,123	-	20,386	-	2,312	22,698
Field trips	4,986	3,100	-	-	2,098	-	-	10,184	-	-	10,184
Bad debt expense	-	-	18,361	-	-	1,627	-	19,988	163,268	-	183,256
Other expenses											
Total expense before depreciation	4,692,174	138,661	790,802	14,507	7,222,024	193,361	542,646	13,594,175	1,484,847	274,322	15,353,344
Depreciation	149,467	27,013	15,725	-	44,743	3,776	-	240,724	550,782	76,247	867,753
Total expenses	<u>\$ 4,841,641</u>	<u>\$ 165,674</u>	<u>\$ 806,527</u>	<u>\$ 14,507</u>	<u>\$ 7,266,767</u>	<u>\$ 197,137</u>	<u>\$ 542,646</u>	<u>\$ 13,834,899</u>	<u>\$ 2,035,629</u>	<u>\$ 350,569</u>	<u>\$ 16,221,097</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 1,492,917	\$ 488,473
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	904,427	867,753
Realized and unrealized loss/(gain) on investment, net	31,909	(73,004)
Bad debt expense	20,465	100,985
(Increase) decrease in operating assets:		
Accounts receivable	(383,989)	80,642
Promises to give	254,214	(791,751)
Prepaid expenses	(102,919)	(260,735)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(365,629)	122,624
Accrued payroll and related liabilities	74,650	(5,308)
Deferred revenue	384,574	120,255
Net cash provided by operating activities	<u>2,310,619</u>	<u>649,934</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(305,627)	(220,386)
Net change in cash held for acquisition of property	46,140	45,646
Sale of investments, net	53,181	61,883
Proceeds from sale of investments, net	23,456	39,598
Net cash used by investing activities	<u>(182,850)</u>	<u>(73,259)</u>
Cash flows from financing activities:		
Borrowings under line of credit	-	902,592
Repayments of line of credit	(345,262)	(920,892)
Repayments of long-term debt	(145,954)	(145,943)
Net cash used by financing activities	<u>(491,216)</u>	<u>(164,243)</u>
Net increase in cash	1,636,553	412,432
Cash and cash equivalents at beginning of year	<u>1,194,485</u>	<u>782,053</u>
Cash and cash equivalents at end of year	<u>\$ 2,831,038</u>	<u>\$ 1,194,485</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

1) Nature of activities

Kingsley House, Inc. and Affiliates (the “Organization”) is a not-for-profit corporation and is a United Way agency serving Southeast Louisiana. The Organization obtains funds from state and federal governmental grants and private donor contributions. The affiliates of the Organization include Kingsley House Foundation, Inc. and 1542 Constance Street, Inc.

Kingsley House Foundation, Inc. (the “Foundation”) is a Louisiana not-for-profit entity which was organized on May 28, 2013 for the purpose of serving as the fundraising arm to Kingsley House, Inc. The Foundation is considered a supporting organization under Internal Revenue Code 509(a)(3). The Foundation is governed by a board of directors with at least 60% of the board being comprised of Kingsley House, Inc. board members.

1542 Constance Street, LLC was formed on August 6, 2013 for the purpose of building the Patrick F. Taylor campus (the “Project”) located at municipal address 901 Richard Street, directly across from the Organization’s main campus. The Organization serves as the sole member of the entity and is responsible for its management. During the fiscal year ended June 30, 2014, the Organization acquired 4.2 acres of land adjacent to the Organization’s main campus upon which it has constructed a 24,000 square foot facility at an estimated project cost, inclusive of the land acquisition, of approximately \$12.5 million to serve more than 300 infants, toddlers, seniors and medically fragile adults. The facility was opened in August 2016.

On January 23, 2015, 1542 Constance Street, LLC was changed to a corporation, 1542 Constance Street, Inc., for the purpose of securing New Markets Tax Credits (“NMTCs”) (Note 12) related to construction of a new facility to serve the community.

In anticipation of the Project, the Organization formed the Foundation discussed above. The Foundation began a 2013 Capital Campaign to fund, in part, the Project and also to provide for ongoing operational and maintenance costs of the Project and the Organization’s main campus. This Capital Campaign continued through 2017. The financing for the Project is a mixture of New Markets Tax Credits, a state Office Community Development Project-Based Recovery Opportunity Program Loan, and a grant from Kingsley House. Construction began in 2015 and was completed in August of 2016.

Programs provided by the Organization are as follows:

Head Start - A state licensed Head Start center is provided for 339 children.

Early Head Start – A state licensed Early Head Start center for 220 children. The Organization is an Early Head Start/Child Care Partnership Start grantee. Through a competitive grant process, in December of 2014 the Organization was selected as one of four grantees in the state of Louisiana. This established the Organization as a grantee for an additional 150 infants and toddler slots amongst 9 child care partners. In addition, in July of 2015, the Organization was selected as one of three Head Start/Early Head Start grantees in the New Orleans Area. The combined grant allows the Organization to operate the most diverse model in the State of Louisiana.

Adult Day Health Care – The Organization operates an adult day health care program licensed for 158 elderly or disabled adults and a senior center for persons over 60 years old.

Participant Meals Program – The Organization operates two full kitchens to prepare and serve breakfast, lunch, and snacks to participants in the Head Start, Early Head Start, Youth Program and Adult Day Health Care programs.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

1) Nature of activities (continued)

Community and Supportive Services – The Organization provides intensive case management services for former St. Bernard Housing Development residents as they resettle in a redeveloped mixed income community.

Youth Program – The Organization operates a full day summer camp program.

Whole Family – The Organization provides a whole family approach to mitigate poverty and provide employment opportunities for participants.

Community Counseling Center Following Hurricane Katrina, the Organization developed a program to help families recover from the effects of Hurricane Katrina by providing intense in-home counseling and conducting outreach activities designed to respond to medical and nutritional needs of individuals and families. This program ended in 2019.

2) Summary of significant accounting policies

The significant accounting policies followed by the Organization are summarized as follows:

(a) Financial statement presentation

The Organization's policy is to prepare its financial statements on the accrual basis of accounting, which recognizes all revenues and the related assets when earned and all expenses and the related obligations when incurred.

The accompanying combined financial statements present the combined statements of financial position, changes in net assets, functional expenses, and cash flows of Kingsley House, Inc., Kingsley House Foundation, Inc. and 1542 Constance Street, Inc. (together referred to as the "Organization"). All significant inter-company accounts and transactions have been eliminated.

(b) Basis of presentation

Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") 958, *Financial Statements for Not-for-Profit Entities*, requires the net assets and changes in net assets be reported for two classifications – net assets with donor restrictions and net assets without donor restrictions based on the existence or absence of donor imposed restrictions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor imposed restrictions or requirements that limit the use of the donation. A donor restriction ends when a time restriction is met or a purpose restriction is accomplished. As restrictions are met, assets are reclassified to net assets without donor restrictions.

(c) Designation of net assets without donor restrictions

It is the policy of the Board of Directors of the Organization to review its plan for future property improvements and acquisitions from time to time and to designate certain amounts to ensure adequate financing of such improvements and acquisitions.

(d) Revenue recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

2) Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Organization uses the allowance method to determine uncollectible unconditional promises to give receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

(e) Donated services

The Organization recognizes the fair value of donated services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not donated. The programs for which the donated services were used are reflected in the schedules below.

The Organization has recorded \$1,463,466 and \$1,630,185 in the Head Start and Early Head Start programs for donated services for the years ended June 30, 2020 and 2019, respectively. These services include:

	<u>2020</u>	<u>2019</u>
Volunteers	\$ 1,408,354	\$ 1,592,136
Supplies	55,112	38,049
Total donated services	<u>\$ 1,463,466</u>	<u>\$ 1,630,185</u>

The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs, but which do not meet the criteria for financial statement recognition. The Organization received 59,838 and 66,655 volunteer hours for the years ended June 30, 2020 and 2019, respectively.

(f) Donated assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions over the useful life of the donated asset. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions over such useful life.

(g) Functional expenses

Expenses are charged to each program directly when the charge is identified to the program. Program expenditures which cannot be directly identified to a program are allocated based on square footage, usage statistics, employees, and ratio of program expenses to total expenses as appropriate. Supporting services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Expenses are allocated among the various program services and general and administrative categories based on actual use or management's best estimate in the combined statements of functional expenses.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

2) Summary of significant accounting policies (continued)

(h) Cash and cash equivalents

All cash-related items having a maturity of three months or less from the original maturity date are classified as cash and cash equivalents.

(i) Investments

Investments in equity securities with readily determinable fair values are reported at their fair values in the combined statements of financial position. Unrealized gains and losses are included in the change in net assets. Investments with a maturity of one year or less are classified as current.

(j) Accounts receivable

Accounts are considered overdue if uncollected within ninety days of original invoice. The Organization considers grant receivables to be fully collectible and when a balance becomes uncollectible, they are written off. No allowance for uncollectible account has been provided, as management has evaluated the accounts and believes they are all collectible.

(k) Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises are recorded when all conditions have been met. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

(l) Pledges receivable

Pledges receivable consists of unconditional promises to give that are expected to be collected in future years and are recorded at the present value of their estimated future cash flows.

An allowance for uncollectible accounts has been maintained for estimated losses resulting from the inability of its donors to make required payments and the present value discount recorded. The Organization's estimate for the allowance for doubtful accounts is based on a review of the current pledge receivable.

As of June 30, 2020 and 2019, promises to give consisted of:

	<u>2020</u>	<u>2019</u>
United Way	\$ 97,983	\$ 102,532
Donors	825,556	1,209,256
Less allowance for discount	(75,338)	(182,652)
Less allowance for doubtful pledges	-	(6,246)
Net pledges receivable	<u>\$ 848,201</u>	<u>\$ 1,122,890</u>

(m) Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. The Organization has not experienced any losses in such accounts. The Organization has no policy requiring collateral or other security to support its deposits.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

2) Summary of significant accounting policies (continued)

(n) Property and equipment

Property and equipment are carried at cost. Depreciation of property is provided over the estimated useful lives of the assets using the straight-line method. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the assets carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. The estimated useful lives of depreciable assets are:

	<u>Useful Lives</u>
Building	5 to 25 years
Improvements	10 to 25 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 to 25 years

(o) Fundraising

All expenses associated with fundraising events are expensed as incurred.

(p) Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3) Income taxes

Kingsley House, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Kingsley House Foundation, Inc. is exempt from income taxes under Section 509(a)(3) of the U.S. Internal Revenue Code. 1542 Constance Street, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code.

The Organization adopted the provisions of ASC 740, Income Taxes. Management of the Organization believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits. With few exceptions, the Organization is not subject to U.S. federal and state income tax examinations by tax authorities beyond three years from the filing of those returns.

4) Noncurrent assets

As of June 30, 2020 and 2019, \$85,090 and \$131,230, respectively, of cash was held for acquisition of property and donor restricted purposes for the construction of the Patrick F. Taylor campus and related interest and fees.

5) Related party transactions

The Organization had a balance of \$246,171 and \$76,469 due from a related party include in accounts receivable at June 30, 2020 and 2019, respectively, and a \$39,371 balance due to a related party included in accounts payable at June 30, 2019.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

6) Property and equipment, net

Property and equipment is summarized as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,095,967	\$ 1,095,967
Building	20,494,594	20,494,594
Improvements	174,889	174,889
Furniture, fixtures and equipment	1,732,726	1,427,101
Transportation equipment	387,008	387,008
Total costs	<u>23,885,184</u>	<u>23,579,559</u>
Less: accumulated depreciation	<u>10,817,008</u>	<u>9,912,583</u>
Property and equipment	<u>\$ 13,068,176</u>	<u>\$ 13,666,976</u>

7) Notes receivable

A leveraged loan agreement was executed on March 10, 2015 between an affiliate of the Federal NMTCs Investor and Kingsley House, Inc. in the amount of \$5,348,000 maturing June 30, 2039 with interest of 1.00%. Principal and interest is receivable quarterly beginning March 15, 2022. The Federal NMTCs Investor has pledged and granted a security interest to Kingsley House, Inc. for substantially all assets of its entities involved in the financing transactions on the closing date. The leveraged loan collaterally assigns all present and future payments, distributions (cash or otherwise), proceeds, profits, income, compensation, property, assets and rights due or to become due and payable to Kingsley House, Inc. in connection with all of the Federal NMTCs Investor's membership interest.

8) Endowment

The Organization's endowment consists of donor restricted funds. The Organization has granted the Greater New Orleans Foundation (the "GNO Foundation") the authority to administer and manage the endowment funds in accordance with the Greater New Orleans Foundation's investment policy and guidelines as noted below. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions – perpetual in nature: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

8) Endowment (continued)

Investment Return Objectives, Risk Parameters and Strategies. The primary financial objective for the GNO Foundation is to increase the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of investment management. Endowment assets are invested in a well-diversified asset mix, which includes equity securities, fixed income securities and alternative investments that is intended to meet this objective. The GNO Foundation has established a 5% real rate of return objective for the GNO Foundation's portfolio. Actual returns in any given year may vary from this amount. Investment assets and allocation between asset classes and strategies are managed to not expose the endowment assets to unacceptable levels of risk.

Spending Policy. The GNO Foundation follows a Total Return Spending Policy for its endowment funds. Endowment funds are invested for maximum total return (within acceptable risk parameters), without distinction between income and capital gains. The market value of the fund is measured over the past 12 quarters, and a percentage of the average of those values is made available for grants. This method appropriately puts the focus on the long-term growth of the fund. This, in turn, encourages the appropriate use of equities in the fund, helping the fund to grow at a rate greater than inflation. The annual percentage for 2020 and 2019 distributions were 4%. This percentage is evaluated each year and adjusted as necessary.

The composition of endowments by net asset class at June 30, 2020 and 2019 was:

	<u>Net Assets with Donor Restrictions - Perpetual in Nature 2020</u>	<u>Net Assets with Donor Restrictions - Perpetual in Nature 2019</u>
Endowment net assets, beginning of year	\$ 84,328	\$ 84,155
Investment income	874	633
Realized/unrealized gain	636	3,471
Subtotal	<u>85,838</u>	<u>88,259</u>
Grants	3,325	3,266
Administrative expenses	<u>615</u>	<u>665</u>
Endowment net assets, end of year	<u>\$ 81,898</u>	<u>\$ 84,328</u>

9) Board designated endowment

As of June 30, 2020 and 2019, the Board of the Organization had designated \$263,173 and \$259,110, respectively, of net assets with donor restrictions – perpetual in nature as a general endowment fund to support the mission of the Organization. Since the amount resulted from restricted donations and is donor-restricted, it is classified and reported as net assets with donor restrictions – perpetual in nature.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

9) Board designated endowment (continued)

The Organization has a spending policy of maintaining realized gains and losses, and investment earnings within the endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity funds and corporate bonds. Accordingly, the Organization expects its endowment assets, over time, to produce a positive average rate of return annually. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Composition of and changes in endowment net assets for the years ended June 30, 2020 and 2019 were as follows:

	Net Assets with Donor Restrictions - Perpetual in Nature 2020	Net Assets with Donor Restrictions - Perpetual in Nature 2019
Endowment net assets, beginning of year	\$ 259,110	\$ 248,163
Investment income	5,710	6,557
Realized/unrealized (loss) gain	(1,647)	4,390
Endowment net assets, end of year	\$ 263,173	\$ 259,110

10) Investments

Investments are carried at fair value and consist of the following at June 30, 2020 and 2019:

	Costs	2020 Fair Value	2019 Fair Value
Endowment Fund Investments	\$ 59,035	\$ 81,898	\$ 84,238
Board Designated Endowment	129,412	263,173	259,110
Other investments		1,154,945	1,180,124
Total investments		\$ 1,500,016	\$ 1,523,472

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

10) Investments (continued)

A summary of return on investments consists of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Endowment Fund Investments		
Investment income	\$ 874	\$ 633
Realized/unrealized gain	636	3,471
Board Designated Endowment		
Investment income	5,710	6,557
Realized/unrealized (loss) gain	(1,647)	4,390
Other Investments		
Investment income	37,511	33,745
Realized/unrealized (loss) gain	(30,898)	65,143

11) Line of credit

The Organization has a \$500,000 line of credit with a financial institution at an annual variable interest rate and is unsecured. The line of credit matures May 8, 2021. The amount outstanding under the line of credit was \$-0- and \$363,562 at June 30, 2020 and 2019, respectively.

12) New markets tax credit

The Facility A and B notes are intended to qualify as a “qualified low-income community investment” (QLICI) for the purposes of generating certain tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, the Organization must comply with certain representations, warranties, and covenants. These include, but are not limited to, a covenant that the “portion of the business” (as defined) will operate to qualify as a qualified low-income community business (a “QALICB”). If, as a result of the breach of the agreement or loan documents by the Organization, JPMorgan Chase Bank, N.A. (“JPMC”), sole member of Chase Community Equity, LLC (Fund Member), sole member of Chase NMTC Kingsley Investment Fund, LLC (the “Fund”), is required to recapture all or any part of the NMTCs previously claimed. 1542 Constance Street, Inc. (“Project Borrower”) and Kingsley House, Inc. (“Sponsor”) agree to indemnify JPMC the NMTCs Recapture Amount. Additionally, the Lenders have a security interest in the assets of the Organization other than real property.

On March 10, 2015, the Project Borrower issued two Facility A promissory notes payable and two Facility B promissory notes payable to the lenders. The notes are subject to credit and loan agreements executed by the Project Borrower, as the QALICB under the NMTCs Program, and the lender.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

12) New markets tax credit (continued)

LIIF CDE Loan A1 (A1 Note) was issued for \$4,345,250 and is secured under the aforementioned credit and loan agreements. The A1 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the A1 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

CNMC CDE Loan A2 (A2 Note) was issued for \$1,002,750 and is secured under the aforementioned credit and loan agreements. The A2 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the A2 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

LIIF CDE Loan B1 (B1 Note) was issued for \$1,959,750 and is secured under the aforementioned credit and loan agreements. The B1 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the B1 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

CNMC CDE Loan B2 (B2 Note) was issued for \$497,250 and is secured under the aforementioned credit and loan agreements. The B2 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the B2 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

At the end of the seven year Tax Credit Investment Period, March 10, 2022 and ending 90 days thereafter (Put Option Period), the Fund Member may exercise a put option whereby the Investment Fund will sell its interest in the NMTCs Facilities to the Organization for the put price of \$1,000. In the event the Fund Member does not exercise the put and the Organization remains in compliance with the loan terms and the NMTCs rules and regulations, the Organization may exercise a call option during the 90 days following the end of the Put Option Period to purchase the Membership Interest of the Fund Member for an amount equal to the fair market value of the Membership Interest determined by mutual agreement of the parties or qualified independent appraiser.

13) Long-term debt

During fiscal year 2016, 1542 Constance Street, Inc. began drawing down on its long-term debt for construction of the new campus. A loan agreement was executed on March 10, 2015 between the State of Louisiana, Division of Administration, Office of Community Development and the Organization in the amount of \$2,000,000 bearing interest at 1.00%, and maturing March 10, 2030. Principal and interest payments are due monthly in arrears commencing March 10, 2017, and continuing until March 10, 2030. As of June 30, 2017, the loan was drawn in full.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

13) Long-term debt (continued)

Long-term debt of the Organization at June 30, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
New Markets Tax Credit- LIIF Sub-CDE XXXI, L.L.C. QLICI A loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	\$ 4,345,250	\$ 4,345,250
New Markets Tax Credit- CNMC Sub-CDE 77, L.L.C. QLICI A loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	1,002,750	1,002,750
New Markets Tax Credit- LIIF Sub-CDE XXXI, L.L.C. QLICI B loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	1,959,750	1,959,750
New Markets Tax Credit- CNMC Sub-CDE 77, L.L.C. QLICI B loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	497,250	497,250
Note Payable - Interest is payable monthly at a rate of 1.0% beginning on September 10, 2016. Principal payments began on March 10, 2017. The note matures in March 10, 2030.	<u>1,527,051</u>	<u>1,673,005</u>
Total long-term debt	9,332,051	9,478,005
Less current portion	<u>149,200</u>	<u>147,613</u>
Long-term debt, less current portion	<u><u>\$ 9,182,851</u></u>	<u><u>\$ 9,330,392</u></u>

The maturities of long-term debt are as follows:

2021	\$	149,200
2022		150,700
2023		152,300
2024		153,900
2025		155,500
Thereafter		8,570,451

KINGSLEY HOUSE, INC. AND AFFILIATES
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For the Years Ended June 30, 2020 and 2019

14) Board designations

It is the policy of the Board of Directors of the Organization to review its plans for future property improvements, acquisitions, and program services from time to time and to designate appropriate sums of unrestricted net assets to ensure adequate financing. At June 30, 2020 and 2019, the Organization had board-designated funds totaling \$1,813,493 and \$1,803,490, respectively, in unrestricted cash and investments on the combined statements of financial position.

15) Net assets with donor restrictions – purpose restrictions

The restrictions on net assets as of June 30, 2020 and 2019 relate to the following:

	<u>2020</u>	<u>2019</u>
W.K. Kellogg Foundation Grant	\$ 275,000	\$ -
Kingsley House Gymnasium	731,457	836,774
United Way funding for next year	<u>97,983</u>	<u>102,532</u>
Total net assets with donor restrictions	<u>\$ 1,104,440</u>	<u>\$ 939,306</u>

16) Net assets with donor restrictions – perpetual in nature

The Organization began receiving donations with the intentions of creating a permanent endowment in 2001. The Organization established the endowment funds with the intent to preserve the fair value of the original gift absent explicit donor stipulations to the contrary. As a result, the Organization classifies as net assets with donor restrictions – perpetual in nature the original value of gifts donated to the permanent endowment, and the original value of subsequent gifts to the permanent endowment. The Organization maintains realized and unrealized gains and losses within the endowment. As of June 30, 2020 and 2019, net assets with donor restrictions – perpetual in nature were \$345,371 and \$343,438, respectively.

17) Operating leases

Kingsley House, Inc. leases space from 1542 Constance Street, Inc. for its program needs. The lease runs through March 2046. Total rent expense under the lease was \$66,000 for the years ended June 30, 2020 and 2019. The rent expense associated with this lease agreement has been eliminated on the combined statements of activities.

Future minimum rental payments under the lease are as follows:

2021	\$ 66,000
2022	201,712
2023	505,000
2024	505,000
2025	505,000
Thereafter	10,490,968

KINGSLEY HOUSE, INC. AND AFFILIATES
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For the Years Ended June 30, 2020 and 2019

17) Operating leases (continued)

Portions of the main campus are sub-leased to various organizations. Payments due under the leases are as follows:

2021	\$ 21,600
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The Organization also leases a service facility under a lease agreement accounted as an operating lease. The lease expired on August 31, 2020 and was not renewed. Total rent expense under the lease was \$31,499 and \$30,288 for the years ended June 30, 2020 and 2019, respectively.

Future minimum rental payments under the lease are as follows:

2021	\$ 5,585
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18) Economic dependence

For the year ended June 30, 2020, approximately 66% of the Organization's revenues came from governmental contracts, 17% from foundations and corporate contracts, and 3% came from contributions.

For the year ended June 30, 2019, approximately 72% of the Organization's revenues came from governmental contracts, 5% from foundations and corporate contracts, and 9% came from contributions.

Historically, the Organization has received Early Head Start and Head Start funding as a delegate agency through Total Community Action, the U.S. Department of Health and Human Services grantee for Orleans Parish. In response to an open, competitive application process, the Organization submitted an application to become one of up to five grantees in Orleans Parish. The federal grant was effective July 2015, and the Organization became a direct grantee.

19) Employee benefit plan

The Organization maintains a 403(b) retirement plan for the benefit of all eligible employees, whereby the employees may elect to defer compensation pursuant to a salary reduction agreement. The Organization contributes a match as described in the plan documents. Contributions for the period July 1, 2018 through June 30, 2020 were based on 3.5% of plan participants' salaries. Total retirement plan expense was \$196,019 and \$185,689 for the years ended June 30, 2020 and 2019, respectively.

20) Fair value measurement

Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

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For the Years Ended June 30, 2020 and 2019

20) Fair value measurement (continued)

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

Equities, certain Fixed Income Funds and certain Money Market Funds: Valued at the closing price reported on the active market on which the individual securities are traded. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics.

Corporate Bonds, Fixed Income Bond Funds, and Mortgage backed Securities: Valued at the present value of the expected future cash flows utilizing the minimum risk free rate of return. The valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Money Market Funds and Mutual Funds: Valued at the net asset value of the shares held at year end.

Other Investments: Included in other investments are Private Equity Funds, Limited Liability Entities, Hedge Funds, and Pooled Investment Funds. These investments are valued based upon the units held at year-end multiplied by the respective unit value. The unit value is based upon significant observable inputs, although it is not based upon quoted marked prices in an active market. The underlying investments consist primarily of equity securities, debt obligations, short-term investments and other marketable securities. In accordance with ASC 820-10, these investments are not classified in the fair value hierarchy.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

20) Fair value measurement (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020:

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Equity Funds	\$ 863,202	\$ -	\$ -	\$ 863,202
Corporate Bonds	-	179,523	-	179,523
Fixed Income Bond Funds	-	301,205	-	301,205
Money Market Funds	105,138	-	-	105,138
Total assets at fair value	\$ 968,341	\$ 480,728	\$ -	\$ 1,449,069
Investments recorded at NAV as practical expedient				50,947
				\$ 1,500,016

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Equity Funds	\$ 996,006	\$ -	\$ -	\$ 996,006
Corporate Bond Funds	-	61,066	-	61,066
Fixed Income Bond Funds	-	345,104	-	345,104
Money Market Funds	68,002	-	-	68,002
Total assets at fair value	\$ 1,064,008	\$ 406,170	\$ -	1,470,178
Investments recorded at NAV as practical expedient				53,294
				\$ 1,523,472

21) Supplemental disclosures of cash flows information

	2020	2019
Interest	\$ 132,304	\$ 119,857
Non-cash financing of insurance premiums	\$ 102,310	\$ 182,824

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

22) Commitments and contingencies

Kingsley House, Inc. is the guarantor in a New Markets Tax Credit Indemnity Agreement between 1542 Constance Street, Inc. and a lender. Should a recapture event occur, Kingsley House, Inc. could be obligated to pay the recapture amount according to the agreement. Management believes there are no breaches of the agreement as of June 30, 2020.

Kingsley House Foundation, Inc. is a guarantor in a credit agreement between Kingsley House, Inc. and a lender. The note payable balance at June 30, 2020 and 2019 were \$1,527,051 and \$1,673,005, respectively.

Any breach of the loan agreement between 1542 Constance Street, Inc. and CNMC Sub-CDE 77 and LIIF Sub-CDE XXXI, LLC, LLC may require the Organization to pay a recapture amount according to the agreement. Management believes there are no breaches of the agreement as of June 30, 2020.

The Organization is contractually committed to spend \$1,435,000 associated with the purchase of land located at 1542 Constance Street for environmental remediation costs. If remediation costs were less than the committed amount or the amount was not expended by August 2018, the Organization was required to remit to the seller any shortfall. As of December 31, 2016, the Organization fulfilled its commitment.

The Organization received a portion of its revenue from government grants, which are subject to audit by the respective funding source. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by such governmental units. Until such audits have been completed and final settlement is reached, there exists a contingency to refund any amount received in excess of allowance costs. Management is of the opinion that no material liability will result from any such audits.

During fiscal year 2014, the Organization partnered with Bayou District Foundation (a local nonprofit organization) and Educare New Orleans (a national nonprofit organization) to operate an early childhood program. The Organization has an agreement to manage and operate the program from July 2019 through June 2024. The Organization receives fees on a reimbursement basis plus a management fee to operate the program.

23) Council on Aging

Contracts with the New Orleans Council on Aging from the Governor's Office of Elderly Affairs are as follows:

	<u>2020</u>	<u>2019</u>
Revenues	\$ 58,002	\$ 51,752
Expenses:		
Compensation and related expenses	10,000	-
Total revenue, net of compensation and related expenses	\$ 48,002	\$ 51,752

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

24) Conditional grant

On April 4, 2020, Kingsley House, Inc. was granted a \$1,739,400 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan funds were received on April 27, 2020 and is uncollateralized and is fully guaranteed by the Federal government. The Organization initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized \$1,739,400 as grant revenue for the year ended June 30, 2020.

25) New accounting pronouncements

FASB has issued ASU No. 2014-09, "Revenue from Contracts with Customers," to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for periods beginning after December 15, 2019.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2020.

The Organization is currently assessing the impact of these pronouncements on its combined financial statements and has elected to not early adopt any of these standards.

26) Liquidity and availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 2,745,948
Promises to give, net	848,201
Accounts receivable	1,206,489
Investments	<u>1,154,945</u>
Total financial assets	5,955,583
Less: net assets with donor restrictions	<u>1,449,511</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 4,506,072</u></u>

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

27) Subsequent events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Organization's financial results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Management has evaluated subsequent events through the date of the auditors' report, the date which the combined financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these combined financial statements.

UNIFORM GUIDANCE COMPLIANCE AND
GOVERNMENT AUDITING STANDARD REPORTS



WEGMANN DAZET & COMPANY

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kingsley House, Inc. and Affiliates
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Kingsley House, Inc. and Affiliates (the Organization), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Organization's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests

disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Metairie, Louisiana
December 29, 2020

Wegmann Bazet



WEGMANN DAZET & COMPANY

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors
Kingsley House, Inc. and Affiliates
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited Kingsley House, Inc. and Affiliates' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Kingsley House, Inc. and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Metairie, Louisiana
December 29, 2020

Wegmann Bazet

KINGSLEY HOUSE, INC. AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Health and Human Services Cluster			
Head Start/Early Head Start	93.600	06CII01015204	\$ 2,519,963
Head Start/Early Head Start	93.600	06CH01015205	5,648,997
Early Head Start Child Care Partnership	93.600	06HP0027/04	626,792
Early Head Start Child Care Partnership	93.600	06HP0027/05	1,900,621
Total U.S. Department of Health and Human Services Cluster			10,696,373
U.S. Department of Agriculture			
Louisiana Department of Education			
Child and Adult Care Food Program			
Preschool/ Early Head Start/School Age/Adult	10.558	CC93-432	349,644
Total Expenditures of Federal Awards			\$ 11,046,017

See accompanying Notes to Schedule of Expenditures of Federal Awards.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2020

Note 1 General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Kingsley House, Inc. and Affiliates. The reporting entity is defined in Note 1 to Kingsley House, Inc. and Affiliates combined financial statements. All federal award programs received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 Basis of accounting

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Kingsley House, Inc. and Affiliates has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

Note 3 Risk-based audit approach

The dollar threshold used to distinguish between Type A and Type B programs is \$750,000. The Organization does qualify as a low-risk auditee.

Note 4 Possible ineligible, disallowed and questioned costs

Kingsley House, Inc. and Affiliates is subject to audit(s) and investigation(s) by state and federal agencies or their designees for compliance with contractual and programmatic requirements with regard to funding provided to Kingsley House, Inc. and Affiliates. The determination of whether any instances of noncompliance that will ultimately result in remittance by Kingsley House, Inc. and Affiliates of any ineligible or disallowed costs cannot be presently determined.

KINGSLEY HOUSE, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

SUMMARY OF THE AUDITORS' RESULTS

1. Type of report issued on the combined financial statements: **Unmodified Opinion.**
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements: **No.** Material weaknesses: **No.**
3. Noncompliance which is material to the combined financial statements: **No.**
4. Significant deficiencies in internal control over major programs: **No.** Material weaknesses: **No.**
5. Type of report issued on compliance for major programs: **Unmodified Opinion.**
6. Any audit findings which are required to be reported under Section 501(a) of Circular A-133 or in accordance with 2CFR 200.516(a): **No.**
7. Major programs for the fiscal year ended June 30, 2020 were:

U.S. Department of Health and Human Services	
Head Start / Early Head Start	(CFDA #93.600)
Early Head Start Child Care Partnership	(CFDA #93.600)

8. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000.**
9. Auditee qualified as a low-risk auditee under Uniform Guidance: **Yes.**
10. A management letter was issued: **No.**

SCHEDULE OF FINDINGS RELATED TO THE COMBINED FINANCIAL STATEMENTS

There were no findings related to the combined financial statements for the year ended June 30, 2020.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no items identified in the course of our testing during the current year required to be reported.

KINGSLEY HOUSE, INC. AND AFFILIATES
SUMMARY OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEADS
For the Year Ended June 30, 2020

SUMMARY OF COMPENSATION

Keith Liederman
CEO

*No agency head expenses were derived from state and/or local assistance.